

**FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD**  
**Minutes**  
**December 11-12, 2002**  
**Room 7C13**  
**441 G Street NW**  
**Washington, DC 20548**

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***Wednesday, December 11, 2002***

**Administrative Matters**

• **Attendance**

The following members attended the meeting: Chairman Mosso, Messrs. Anania, Calder, Farrell, Kull, Patton, Reid, Schumacher, and Ms. Cohen.

• **Minutes**

The board approved the draft October minutes with one non-editorial change – the addition of Mr. McNamee’s original chart in the discussion of Stewardship Responsibilities.

## Agenda Topics

- **Agenda Setting**

Chairman Mosso explained that the Technical Agenda Setting topic would be covered over both days of the Federal Accounting Standards Advisory Board (FASAB) meeting. On day one of the meeting, the Board would discuss criteria for rating projects and on day two, the Board would discuss the ranking or prioritization of potential projects. Chairman Mosso explained that the discussion should include comments on the criteria presented by the staff for consideration as well as suggestions from Board members of additional criteria for consideration.

Executive Director Ms. Comes continued the discussion by explaining that the criteria presented by the staff was based largely on Financial Accounting Standards Board (FASB) criteria, discussions with Pat McNamee (representing the American Institute of CPAs) at the October Board meeting, and factors that the Board had considered in the past. Ms. Comes explained that the criteria would be helpful in developing a consistent means to assess the projects. She recognized that there are many different ways to rank projects. Ms. Comes also noted that rating each project against the criteria is helpful but may not be an effective way to do numerical scoring as there are qualitative factors that must be considered also.

Mr. Anania asked what the Board's approach has been with respect to how much preliminary work needs to be done before you decide on a particular project. He explained that there are two schools of thought: (1) the Board decide on a project then begin the work, including research and (2) staff do enough preliminary work and research before officially starting a project. Although it was noted that this is partially addressed in criteria 3, *Technical Outlook and Resource Needs*, Mr. Anania suggested that it could be more robust by including contact with preparers, auditors, etc. Mr. Anania explained that it is much better to have a full understanding of the issue, which would require more preliminary work, before deciding to officially take on a project. He also explained that having this information is important when it comes to allocating resources and the time it takes to complete projects. Mr. Patton concurred and stated that adequate preliminary work should be done to answer the criteria that the projects are evaluated against.

Mr. Patton suggested that in the past, the Board has had several agenda meetings with the result being to periodically add new projects to the list. He questioned whether that was the goal of this agenda setting cycle. Ms. Comes explained the primary purpose is to communicate priorities of the Board to the staff. She also explained that it is very difficult to determine the timing of projects, and although we may not automatically start on a new project, staff are aware of the upcoming projects based on the Board's priorities. Ms. Comes also commented that the agenda process has become more formalized in an effort to get input from the community. Chairman Mosso also noted that this was the most robust agenda hearing that FASAB has had. In addition, Chairman Mosso noted that the technical agenda setting process is an evolving one and that the Board will be looking at process type issues as well as the criteria.

Mr. Anania discussed that putting an item on the agenda is one of the most important things that the Board does as it is committing staff and resources and that the Board should ensure that it has enough information—clear understanding of the issue, contacts, possible alternatives or views of solutions, education sessions, current practices, etc.—to commit. Mr. Patton suggested that philosophy works when a well developed generally accepted conceptual model exists underpinning what you are doing, but that is not the case in the federal accounting arena. Mr. Anania suggested that this may be indicative of where the Board should be spending their time.

Mr. Farrell asked for clarification of the criteria 3.b. *Technical outlook and resource needs—Are there sufficient resources available to research and resolve the question on a timely basis* and if this was referring to staff resources. Ms. Comes explained that it was much broader and global, including the community's availability to assist through task forces and it was more indicative of how quickly something could be addressed.

Chairman Mosso queried the Board for input on adding the criteria *Requests from Principals* as an item to consider when ranking the projects. Chairman Mosso explained that although their requests are considered, it does not mean that FASAB will definitely take on the requested project as FASAB is independent. Mr. Patton suggested that it not be included as a formal criterion especially considering independence issues. Additionally, if the Principals request a project in a certain area, it would most likely be significant enough to meet the established criteria. The Board members agreed with Mr. Patton.

Mr. Calder requested clarification of the criteria 2.c. *Pervasiveness of the issue among federal entities—Is the issue of long duration?* Specifically, Mr. Calder wanted to know what would be considered short duration. Ms. Comes explained that it would include issues or events that will have passed us by before we can actually address them or that they may need to be addressed now, but then it will pass—such as Y2k. Mr. Calder also requested clarification of the criteria 2.d. *Pervasiveness of the issue among federal entities—Is there a cost to auditors, preparers, and potential users of FASAB inaction?* Mr. Calder explained that he believed it would be difficult to relate it to cost and that perhaps it should be reworded to focus on existing ambiguity, which leads to divergence in practice or difficulties for preparers and auditors. Mr. Calder also suggested that a potential criterion to consider in the ranking process would be if a particular project would be 'filling a hole' or 'covering new ground.' He believes there should be a balancing act between the two types of projects.

Mr. Farrell asked for clarification of what the Board hopes to accomplish at this point--whether the Board is making preliminary decisions or just the decision to look at a project further. Ms. Comes said that process is evolving and thought it would be beneficial to get the Board's opinion of the ranking process using the criteria and whether members believed it would be helpful in the process. Also, she explained that staff needed to determine if the Board wanted additional information on certain projects to consider in the ranking.

Mr. Anania asked whether the list of criteria for consideration could be applied to concepts that may need to be addressed, since the criteria appear to be more issue oriented. Chairman Mosso explained that certain conceptual type issues could be incorporated into other specific projects as necessary.

Chairman Mosso ended the discussion by indicating that staff will make changes to the criteria based on the discussion and the Board will continue discussing the ranking of projects at the meeting tomorrow.

- **Natural Resources**

Ms. Valentine presented a revised project objective, scope and plan based on comments received at the last Board meeting and comments received from Board members subsequent to the meeting. She said each type of natural resource would be separately addressed. Staff would begin with oil and gas. Ms. Valentine explained that, while the objective, scope, and plan addressed oil and gas specifically, the other types or logical sets of natural resources would be addressed in following phases of the natural resources project. Ms. Valentine added that the oil and gas framework would be used as the model for the other phases of the project.

Mr. Schumacher asked if there were significant differences between what the Federal Government (FG) does with respect to oil and gas and what the private sector does. Ms. Valentine responded that with exception to the National Petroleum and Oil Shale Reserve (NPOSr) program, the FG is not involved in exploration. She added that the FG only leases the rights for exploration by the private sector. In the NPOSr program, the Department of Energy is in a joint venture with Chevron for the exploration and production of oil and gas. Ms. Valentine also noted that the private sector does not capitalize resource estimates but that it does capitalize certain incurred costs. Mr. Farrell noted that if the Board follows the private sector, there would be no costs to the FG except administrative costs

Mr. Anania asked if this project would address the NPOSr program. Ms. Valentine explained that because the NPOSr program follows the Financial Accounting Standards Board (FASB) standards, it was excluded from the prior natural resources task force project, but that staff would assess the current state of the NPOSr to determine if it should be included in the current natural resources project. Mr. Reid asked if the Department of Energy is bringing any part of the joint venture accounting for the NPOSr program into the consolidated financial statements of the Department. Staff did not have the answer but committed to researching the question and obtaining an answer.

Mr. Farrell asked if both off-shore and on-shore oil and gas resources would be addressed in this phase of the project. Ms. Valentine responded they both would be; that is, the outer-continental shelf and the leaseable fluid minerals. Mr. Calder asked if the States had any ownership interest in oil and gas resources on land that was owned by the FG within a State. Mr. Wascak explained that the FG would have full rights to the resources; however, portions of royalties that are collected from the production of oil

and gas within a State are allocated to the State and local governments by law. Mr. Anania noted that this raises a question, which the Board will have to answer, and that is should the FG report gross or net collections for these royalties.

Mr. Jacobson asked how this project would relate to mineral rights on Indian lands. Chairman Mosso explained that Indian assets would be reported on some sort of fiduciary balance sheet and the FASAB standards would be followed to account for them.

Mr. Patton stated that the project plan did not address the reporting objectives. He added that he would incorporate an activity in the project for an assessment of the reporting objectives in relation to the project. He said it appears as though the project plan focuses on “what is” rather than on “what should be.” Mr. Patton added that one needs to know “what is” to get to “what should be” and including this step would be useful. Ms. Valentine noted that Staff would address this.

Mr. Patton noted that the definition of a balance sheet that was presented in the handout material was not consistent with the views of the Board. He said it seemed to him that it wasn’t a formally established definition and would urge that the definition be eliminated if it can’t be fixed. Ms. Valentine explained that it is not authoritative; however, staff was attempting to provide some description of the financial statements it intended to focus on in the project. Chairman Mosso indicated that the material presented by staff did not need to include definitions of the statements. Ms. Valentine responded that the definitions would be removed.

Mr. Patton also expressed dissatisfaction with the definition of assets. He noted that he knows it is a working definition; however, he is not fond of it. He added that previous Board discussions highlighted that on-going projects could address definitions and thus support concepts development. Mr. Patton asked if the natural resources project could address the definition of assets. He would prefer “assets” be defined soon. Mr. Anania noted that he liked Mr. Patton’s idea to address the definition of assets to see if it holds up in this project. The Chairman indicated that he did not want to hold this project up while dealing with the definition. However, Board members could possibly work on it among themselves using correspondence. Mr. Patton volunteered to lead this task.

Ms. Valentine directed the Board to the AICPA and FASB excerpts. She explained that staff would use the material as guidance in the framework for the oil and gas project especially where there were similarities in activities. Chairman Mosso noted that there might be similarities in leasing but maybe not for incurring costs. He added that disclosures of quantities might be something the Board considers. Various Board members commented on the various classifications of “proved reserves.” Ms. Cohen stressed that reserves are deemed proved when they are economically recoverable. Mr. Farrell indicated that it would be helpful to have a portion of the financial statements of an oil and gas producing company that addresses the required supplemental information. Ms. Valentine noted that staff would provide the Board members with an

example. Subsequent to this, Ms. Valentine handed out copies of portions of the Chevron-Texaco Corporation financial statements.

Mr. Schumacher asked for a clarification of the text addressing “Revenue Recognition” on page 13 material provided to the Board, which was an excerpt from the Natural Resources task force discussion paper (page 56). Ms. Comes read paragraph 45 of SFFAS No. 7 and explained that in this case an exception was made because recording the revenue on the operating statement absent the cost sacrificed to earn the revenue would distort the operating results at the Mineral Management Service (MMS) and the Department of Interior. Ms. Comes added the natural resource task force paper discusses this exception. Mr. Kilpatrick noted that the Classification of Transactions section of SFFAS No. 7 also provided additional detail about this.

Chairman Mosso asked if the Board was satisfied with the approach being used for the project. Mr. Calder suggested that it would be helpful to him if staff could provide what the impact on the financial statements would be if we knew what quantities of oil and gas resources we had. Mr. Anania suggested that looking at the private sector for leasing activities would help. Chairman Mosso asked the staff to adjust the framework material based on the Board’s comments.

- **Dedicated Collections**

Ms. Palmer explained that the paper presented to the Board was intended to reach a consensus on the accounting treatment of dedicated collections. The paper addressed four questions related to dedicated collections: (1) whether the Board agreed with segregating the Net Position of dedicated collections, (2) the appropriate term for dedicated collections, (3) the appropriateness of the disclosures required by the current standard, and (4) the need for a standardized note disclosure on the nature of investments.

Mr. Patton noted that the paper’s approach, addressing only segregating net position, focused on the entity of the fund rather than the flows that result in balances in the fund. He questioned whether a balance in the fund could be considered restricted when the flows were not. Mr. Mosso responded by stating that the disclosures require that flows be shown for the accounting entity. A general discussion followed regarding the fact that the disclosures constitute mini Statements of Net Costs. Mr. Patton stated that, since the revenues are already restricted in the fund accounting entity, the amounts could be separately shown on the Statement of Net Cost. He noted that if this is a new element, the Board would need to be careful in naming and defining it.

Mr. Anania asked whether the funds received only non-exchange revenue and whether the Board only wanted to include non-revolving and special funds. Mr. Reid also asked whether the term revolving funds included those that are currently referred to as working capital funds. A general discussion followed about the types of funds to include in the definition and the need to avoid a definition that relies on budget terms such as special and trust. Mr. Calder noted that the Board should develop principle-based rather than rule-based accounting standards. He said he would prefer to annunciate a principle and

trust people to apply it. Mr. Reid agreed that if the Board developed a principle-based definition and later found that it was not being applied properly, the Board could address it at that time. Mr. Mosso noted that the principle in this case is the dedication of the funds by Congress. Mr. Kull referred back to a constituency's expectations based on the act of Congress.

Several Board members discussed whether differences exist between revolving trusts and public enterprise funds and between non-revolving trusts and special funds. Mr. Mosso noted that most revolving funds and public enterprise funds have investments and that by including these funds in the definition the Board would resolve confusion over both the investments and the dedicated nature of the funds.

The board discussed several possible titles for the funds. Mr. Patton suggested a title that included the term unrestricted and restricted for future commitments. Mr. Jacobsen raised a question regarding the types of funds used for the same purposes as a general appropriation. His example was filing fees used for salaries and expenses. Although lawyers might expect that the fees be used for purposes of the court, it was a lower expectation than one would have for highway taxes being used for highways. Mr. Kull pointed out that all the funds have a constituency even if it is a very narrow one. Mr. Mosso suggested that was a good reason to use congressional action as a basis for the definition. Mr. Kull stated that he was more concerned about the meaning of an "unrestricted negative deficit." Mr. Mosso responded that the term restricted might not fly.

Ms. Palmer asked whether the disclosures in the current standard are satisfactory to Board members. The Board members indicated that in general they are. Mr. Mosso suggested that Ms. Palmer rewrite them to clarify areas previously discussed by the Board. Mr. Kull asked that materiality be specified at the entity level rather than the constituency level.

Ms. Palmer also asked whether the standardized wording for a disclosure on the nature of the investments was satisfactory. Mr. Reid said he would prefer to see something more general, such as the government's need to find the money when securities are redeemed.

Referring to an earlier comment on whether the Board was looking for net position on the fund or the reporting entity, Mr. Anania said he would like staff to provide an illustration of the flow of funds at the next meeting, including all the accounting entries. Mr. Kull stated that he would like to see the Fish and Wildlife Service used as an example and would want to see the financial statements with and without the proposed changes.

- **Reclassification of Stewardship Responsibilities and Eliminating Current Service Assessment**

Mr. Bramlett opened the discussion by reminding the Board that before the October meeting the Board seemed to have reached a consensus to issue a final statement that

would eliminate the Current Services Assessment (CSA), make risk assumed information Required Supplementary Information (RSI), and make at least the Statement of Social Insurance (SOSI) an integral part of the basic financial statements. At the October meeting, Mr. Anania suggested that the Board should wait to change the status of the SOSI, if the Board were about to undertake a project to reconsider recognition and measurement of social insurance. Accordingly, the Board would need to decide whether to change the status of the SOSI at this time.

Mr. Bramlett noted that the Board was scheduled to discuss its technical agenda again the next day, but in light of Mr. Anania's comments, and at the Board's request, members had received some background material relevant to the recognition question. In addition to the staff briefing paper, they had been given a copy of a short paper "A Debt is a Debt" by Ligun Liu, Andrew Rettenmaier, and Thomas Saving, and had received a longer paper by the same authors via E-mail from Ms. Comes. That paper provided an estimate of an accrued obligation for Medicare roughly analogous to the "maximum transition cost" Mr. Goss, Social Security Administration's (SSA) Chief Actuary, had calculated for Social Security.

Mr. Bramlett described these numbers as "pension style" computations in a generic sense, but noted that FASAB, FASB, and Governmental Accounting Standards Board (GASB) each have very different pension accounting standards that lead to recognition of very different numbers. The Board members also had been given a two page explanation from Mr. Goss of the relationship between the "closed group" number and the "maximum transition cost."

In addition to the "threshold" question of whether to change the status of the SOSI from Required Supplemental Stewardship Information (RSSI) at this time, Ms Comes' transmittal memo listed four additional questions:

1. If we do make the SOSI an integral part of the basic financial statements, should we specify whether it appears as a statement or in notes?
2. If we do make the SOSI basic in fiscal year 2005, should we reclassify the other social insurance (SI) information now, or let the change from RSSI occur for all SI information together?
3. If we issue a final Statement now, do we wish to retain appendix B, which was in the exposure draft "to help respondents understand" the Board's deliberations and comment on the exposure draft?
4. If we issue a final Statement now, do we wish to say anything in the Basis for Conclusions about the Board's consideration of whether to undertake a new project on recognition and measurement?

Mr. Mosso said he would prefer to reclassify social insurance information now without further delay; we have considered the subject at length. Even if the Board decides to reconsider recognition, we don't know how long such a project would take. He would make the SOSI a primary statement, subject to audit.



Mr. Anania said he hesitates to make that change now but not primarily because of concerns about whether an audit of the SOSI is feasible. Rather, he is not clear as to why, after only 3 years since issuing SFFAS 17, we want to change the decisions made in that Statement. Why do it now without re-exploring basic issues, such as the nature of the plan, that might influence a decision on liability recognition?

Mr. Mosso responded that the Board decided to do away with the RSSI category. He also said that the Board originally intended that RSSI should be treated as if it were basic, and subjected to full audit. Mr. Calder agreed, saying that RSSI was a compromise of convenience. Different people had different ideas about what it meant and how it would be audited, but the Board agreed to accept some ambiguity in order to move ahead.

Mr. Anania said there is some precedent for reporting as basic information certain disclosures that standard setters thought were not the best answers (e.g., interim disclosures regarding post-employment benefits other than pensions) before a standard for recognition was completed. However, usually when things are put in basic information, the information is directly related to basic numbers or is based on concepts that fit with them. He is concerned that we could send the wrong signal. When and if we explore recognition and measurement for social insurance, we might come up with different answers than this Statement will require.

Mr. Mosso said he was fairly comfortable that would not be the case. The memorandum from Steve Goss, SSA's Chief Actuary, shows that almost anything we might decide to recognize would fit with the SOSI, perhaps modified. Mr. Anania noted that the memo addressed the closed group number. Mr. Mosso said that the closed group number is, in effect, contained in the SOSI. The pension-style accrued liability is not currently reported or "broken out," but if the Board ultimately elected to recognize such a number, its relationship to information in the SOSI could be shown.

Mr. Kull said he has not wanted to rush forward with making the SOSI "basic" information. Now is not the appropriate time; the community is not ready to audit it. Most comments were opposed. Some of the Board's principals have indicated a desire for a more fundamental consideration of what is a liability.

Mr. Mosso said we could classify social insurance information as RSI, but the Board felt it was basic because of its significance. He asked whether we had heard more from AICPA about the auditability issue. Mr. Bramlett said that AICPA was working on the subject. His impression was that they were looking for a way to render assurance on the SOSI, but the exact nature of the assurance and the language in the auditor's report had not been determined.

Mr. Anania explained that his concern was not based on AICPA's questions about their ability to audit the social insurance information per se, but the auditors' concerns also were to some extent rooted in the same conceptual or philosophical questions he has, for example:

- the uncertainty about the open group numbers;
- the impact of small changes in assumptions;
- the number and breadth of the assumptions required; and
- the fact that it is based on “best estimate,” which is not necessarily the best way to look at something from a probability standpoint.

For the reasons that some people did not think one should call the open group number a liability, he is not sure he wants to put the SOSI--in its present form--into the basic category. He would call the open group number RSI. Mr. Kull agreed.

**Decision:** All members except Messrs. Kull and Anania agreed that the SOSI should be classified as an integral part of the basic financial statements. Mr. Calder specified that, in his view, it could be presented in the notes.

The Board then discussed the status of other social insurance information required by SFFAS 17.

Mr. Farrell noted his suggestion that some of that information could be treated as other accompanying information (OAI) [i.e., supplementary information other than that required by GAAP]. The description of the program and assumptions should be audited; the rest could be unaudited.

Mr. Bramlett reviewed the requirements of AU 558 and the history of FASAB’s use of the OAI category. He noted that GASB permits reference to RSI in separately-issued, publicly-available documents.

**Decision:** The Board agreed other social insurance information would be classified as RSI.

**Question:** When to make the change to RSI for social insurance information other than SOSI?

**Decision:** The Board agreed to make all changes regarding social insurance information effective in fiscal year 2005.

**Question:** Ms. Comes asked the Board to confirm its tentative decision that “risk assumed” information would be reclassified as RSI immediately, and the requirement to present the Current Services Assessment would be eliminated immediately.

**Decision:** The Board confirmed this.

**Question:** Should appendix B be retained, deleted, or amended?

Mr. Patton said that if the Board wants to be an independent, accountable Board, it should explain itself clearly. The appendix is needed to do that. One can’t understand

the basis for conclusions very well without the structure presented in appendix B. Mr. Calder noted that appendix B includes references to papers published by various academics. He did not know what was in those papers, and expressed concern about inferences people might draw from those papers as a result of these citations in FASAB's literature. Rather than take a risk of a problem, he would delete those references.

Mr. Anania noted that some of the references or sources for items discussed in appendix B were written in the context of disclosure that ties to recognition, while FASAB in some cases, seemed to be discussing disclosure without relating it to recognition. "Disclosure in lieu of recognition" Mr. Calder said. Staff agreed that in some cases language drawn from some sources had been modified because FASAB has not asserted a hierarchy in which disclosure was not a substitute for recognition, as has FASB. Staff noted that a question arises whether making the SOSI a basic statement constitutes recognition. Mr. Anania noted that the SOSI would not articulate with the other basic statements. If it is made a "basic statement", perhaps it should come with a warning. Mr. Calder (having earlier suggested that the SOSI should be presented as a note to the basic statements) observed that presenting the SOSI as a basic statement might perpetuate the confusion engendered by reporting the information as RSSI.

**Decision:** The Board decided that staff should combine appendix B with the basis for conclusions and eliminate references to academic research that might be misinterpreted.

**Question:** Should the basis for conclusions discuss the possibility of a new project on recognition and measurement of social insurance?

**Decision:** There could be a reference to fact that such a project is under consideration.

## **Adjournment**

The meeting adjourned at 3:30 PM.

## **• Steering Committee Meeting**

The steering committee met in closed session to discuss a personnel matter.

***Thursday, December 12, 2002***

## **Agenda Topics**

- **Fiduciary Activity**

The staff presented the changes made to the draft exposure draft (ED) on fiduciary activities pursuant to the October Board meeting, discussed new developments, and raised issues. The new developments included a 3-category approach to clarify and distinguish among methods for holding fiduciary assets: (1) in the U. S. Treasury (Treasury) in the name of the federal entity, (2) outside the Treasury in the name of the federal entity, and (3) outside the Treasury in the name of the non-federal party. The term “in the name of the Federal entity” would be defined to mean that the federal entity makes investment decisions, disburses funds or otherwise disposes of the asset pursuant to law, and makes other operational decisions.

Mr. Calder indicated that there was a fourth possibility for holding fiduciary funds: in the Treasury but in the name of the non-federal entity. The staff explained that the intent was to define the categories so that, if the assets were held in the Treasury, they would, in effect, be “in the name of” the federal entity because operationally the federal entity would possess the necessary control. Mr. Calder asked whether the Indian monies would meet that test. Mr. Reid said that money might pass through Treasury on its way to other things during which time it would be “in the Treasury in the name of a non-federal party.” Mr. Farrell said that even if there were a fourth category the same accounting treatment would be applied to it as in category (1), that is, assets and liabilities would be recognized on the federal administrative entity’s balance sheet. The Board directed the staff to research the possible fourth category.

The Board discussed an issue regarding the required footnote disclosures. The ED provides that information on fiduciary activity required in footnotes to the financial statement is “an integral part of the basic financial statements, essential for fair presentation in conformity with generally accepted accounting principles.” The staff said a department’s financial statements had received a “clean” opinion in a prior fiscal year even though a footnote contained data on trust money that (1) was on a cash basis and (2) had itself received only a qualified opinion. In drafting the ED the staff followed the prior Board’s direction (reflected in October 1999 minutes) whereby the standard would contain a general statement that the information was required to be in a footnote to the financial statements and that the footnotes are an integral part of the basic financial statements. The Board agreed with this approach.

Mr. Farrell questioned the implications of the accrual accounting requirement in paragraph 40 whereby assets and liabilities reported in the federal entity’s basic financial statements and the notes should be recognized, measured, and so forth, using the FASAB standards. Mr. Calder noted that, although the Thrift Saving Fund would be footnote disclosure only, some Indian assets might be subject to a full review under FASAB standards. He said he was unsure about the propriety of this. Also, Mr. Farrell voiced concern that there might be issues regarding accounting valuations or eliminations; for example, that the fiduciary assets might be held at market at the federal entity/fiduciary level and at another valuation at the Treasury/Consolidated Financial Report (CFR) level.

The Board concluded that, with respect to eliminations, there would not be an issue. The ED would not eliminate fiduciary investments in Treasury securities [or any other assets except "Fund Balance with Treasury" (FBWT), which would be eliminated against Treasury's liability for FBWT]. With respect to valuations, the ED requires the same valuations as in FASAB standards and, therefore, would be reciprocal between the federal reporting entity and the Treasury/CFR.

Mr. Anania mentioned his concern that the disclosure requirements could be "overkill" for some of the small funds. Mr. Calder agreed. The staff explained that the disclosure would be minimal for a small fund. There was a consensus on the Board that the staff should consider how to avoid overkill.

Mr. Patton expressed dissatisfaction with using the word "intent" in paragraph 17. He did not follow how "fiduciary activity must be based on ... evidence of the intent to engage in such activity", especially given paragraph 10's example of "intent", which he said seems to be based on actual fiduciary activity taking place. He asked whether in that case "intent" was the same as behavior. Also, he didn't follow the basic structure of "activity must be based on ... intent to engage in such activity". For example, if one engages in the activity without intending to, does that negate the nature of the activity? After some discussion, it was agreed that the word "intent" would not be used. The Board agreed that the following wording should replace the current opening sentence in sub-paragraph 17.1: "A fiduciary relationship is based on statutory or other legal authority and there is evidence that the Government activity is in furtherance of that relationship." Other conforming changes would be made to the ED if necessary.

Mr. Reid noted the fiduciary activities and dedicated collections projects needed to be consistent regarding the use of the term "trust funds." Staff agreed. Mr. Mosso noted that it would be best to minimize the use of the term "trust fund."

Mr. Farrell said that, according to the scope paragraph, the ED would exclude SFFAS 3, paragraphs 57-78 regarding seized assets but that standard was not consistent with the ED's requirement with respect to non-monetary assets. SFFAS 3 does not require seized non-monetary assets to be recognized on the balance sheet whereas the draft ED appeared to do so for fiduciary assets. Mr. Farrell noted and agreed with the logic of SFFAS 3 in not requiring property to be valued where such valuations were not practicable, but thought there was inconsistency. The staff explained that its intent was to make it clear that the draft standard would not change SFFAS 3. The staff was directed to review the proposal for consistency with SFFAS 3.

Staff asked the Board to consider the issue of reporting/disclosing non-entity assets. SFFAS 1 requires the administering entity to report non-entity assets in the financial statements, without indicating if that means on the face of a statement or in the notes thereto. The Office of Management and Budget's (OMB) *Form and Content* guidance specifies that the disclosure would be in the notes. Mr. Reid indicated that assets owned by a non-federal entity should not be commingled on the balance sheet with government owned assets. Thus, he preferred segregation of the non-entity assets on the face of the statement. No members disagreed.

Mr. Mosso directed the members' attention to alternative accounting approaches for asset recognition illustrated in the pro forma transactions. He noted that the ED as written requires a broad approach whereby the federal administrative entity recognizes all assets and related liabilities of the fiduciary party held as in categories (1) and (2) on the face of its financial statements. He said that in the private sector this would be equivalent to a parent-subsidary

model. Mr. Mosso noted that the ED provides an alternative that is akin to a banking model where only the banking-related assets like cash deposits would be recognized. Mr. Mosso asked the members whether they preferred the broad or alternative approach.

In attempting to make a choice between these alternatives, Mr. Anania said he was led back to the definition of assets. If these assets were going to be booked by the federal entity, then the Board would have to be comfortable that they meet the FASAB definition of an asset. Mr. Anania said the key word in the FASAB's definition was "owned." Mr. Reid said the concept is really "owned or controlled." Mr. Patton noted that the FASAB definition of assets is a working definition,<sup>1</sup> that the Board would be undertaking a project soon to rework the definition of asset, and that he had volunteered to lead the project.

Mr. Mosso confirmed that the members were comfortable with the ED's approach and asked whether the members preferred the broad approach or the alternative. The Board voted 8 to 1 in favor of the broad approach, with Mr. Calder voting against the approach.

The members agreed to provide substantive or other comments, if any, directly to the staff. The staff will circulate another draft of the ED showing all changes made following the December meeting.

- Agenda Setting

Chairman Mosso indicated that the discussion of potential agenda topics would be a first pass to get some indication as to what the Board believes to be priorities. He further explained that the Board should consider that projects can be split up or merged as appropriate. Chairman Mosso explained that based on the Board's input, staff will come back with answers to questions on projects, more detailed project descriptions, and project phases.

Mr. Reid opened the discussion by stating that he believes that the concepts need some work as they are out of synch with where the Board is on certain issues. In addition, he wants to look at Social Insurance by looking at the flows through all of the financial statements. Mr. Reid acknowledged that both of these are large projects that would take much time. He suggested

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<sup>1</sup> Staff notes that the FASAB standards provide the following guidance regarding assets:

- From the FASAB *Glossary*: **Assets**: Tangible or intangible items **owned by the federal government** which would have probable economic benefits that can be obtained or controlled by a federal government entity. (Adapted from Financial Accounting Standards Board, Statement of Concepts No. 6, *Elements of Financial Statements*). [Emphasis added. Staff notes the derivation of this definition from FASB Concepts and its use exclusively in the FASAB *Glossary*.]
- From SFFAS 1, *Accounting for Selected Assets and Liabilities*, par. 21: **Governmental assets and liabilities** arise from transactions of the federal government or an entity of the federal government with nonfederal entities. Governmental assets are claims of the federal government or an entity within the federal government against nonfederal entities. .... Among the assets covered by this Statement, governmental assets that would be reported by a federal entity include cash, accounts and interest receivable from nonfederal entities, and advances and prepayments made to nonfederal entities.
- From SFFAC 2, *Entity and Display*, par. 102 [regarding deposit funds]: Custodial collections do not include deposit funds, i.e., amounts held temporarily by the government (e.g., bidders' earnest money or guarantees for performance) or amounts held by the Government as an agent for others, (e.g., state income taxes withheld from federal employees' salaries that are to be transferred to the states). **Both of these types of collections can be considered assets and liabilities** until they are returned to the depositor or forwarded to the organization entitled to the funds. [Emphasis added.]

that the Board could look at the concepts and the definitional issues to bring things in order. He would couple that with the Social Insurance project as it would be a good joint project since it goes beyond the traditional liability definition.

Mr. Kull concurred that work in the concepts area should be a priority since it does relate to many issues that the Board has been dealing with. Mr. Kull suggested that work and time invested on the concepts would ultimately help solve many of the problems on the project list. Mr. Shumacher agreed that the concepts should be one of the top priorities. Conceptual issues have come up consistently during the short time that he has been on the Board.

Mr. Anania also agreed that although it would be a major undertaking, the concepts should be a priority. He noted that it is not unusual for a standard setting body to pause for a moment to rethink some of the conceptual issues. He stated that it was similar to what FASB had done. Mr. Patton also concurred with the Board members and added that a stable, solid conceptual framework is necessary.

Mr. Anania noted that several standards have had amendments, which may also indicate that there are some conceptual issues that may need to be explored. Mr. Kull explained that when FASAB began, there were no concepts and standards out there. It is interesting to look at the types of questions and issues that are now being raised since the preparers and auditors gain understanding of the issues. Accordingly, there is nothing wrong with the Board now taking the time to look at this and act. Chairman Mosso added that with this being so, there is no discredit to the previous Board as they had a tremendous undertaking of creating the core set of accounting standards in a short period of time.

Mr. Calder agreed that the concepts need to be addressed but would prefer that concepts be handled with projects on the issues at hand. Mr. Calder also added that the Board needs to be mindful of the unique nature of the federal government, which leads to difficulties with the concepts because it is a different entity operating in a different environment.

Mr. Patton suggested that another potential project would be looking at taxing authority. Specifically, if the Board will be looking at conceptual type issues and intends to consider the expectation or commitment of Social Insurance in the liability section of the balance sheet, then it should also consider similar type issues in the assets for a full picture. Mr. Reid explained that there is some work being done in this area at Treasury. He also concurred with the fact that it may need to be considered.

Chairman Mosso suggested that it may be easier to address a conceptual problem while addressing a practical problem. The Board concurred that while work on projects should not be stopped to address the concepts there should be a parallel plan for addressing them together. Staff will determine the best projects to address the various conceptual issues based on the projects ranked highest by the Board. Mr. Mosso requested that each Board member discuss the projects that they ranked high and would prefer the Board address.

Mr. Patton reiterated that work on the concepts should be first and foremost. He also said that he had grouped the potential projects into four areas—Liabilities, Managerial, Entity, and Disclosures—with no strong preference from projects from each of the categories.

Mr. Schumacher believed the top five projects are Social Insurance, Concepts, Deferred Maintenance and Asset Impairment, Performance Reporting, and Asset Retirement Obligations.

Mr. Calder reiterated that he does like the notion of attacking concepts with the projects. Mr. Calder did note that he believes that the Board should determine the amount of emphasis that they want to do in the managerial area. Specifically, are we trying to help them manage better by issuing the standards? Mr. Calder added that although this is a good thing, it may not be what the Board should focus on now. Mr. Kull added that while there is support for cost accounting there is a limit on where the Board can go with it. Mr. Anania pointed out that the objectives are much broader than any other standard setter and we may need to actually reexamine them as well along with the concepts.

Mr. Kull stated that he believed work in the concepts area is the highest priority and that this work would eventually assist with other projects. Other projects that should be considered very important are those that will help the financial community—specifically the projects Federally Funded Research and Development Center and Actuarial Changes. Mr. Kull also noted that the Leases and Leasehold Improvements (broader issue including capital vs. operating leases) was another project that is important and would help the community.

Mr. Reid also reiterated the importance of work with the concepts. He also noted Social Insurance, Actuarial Changes and Contingencies/Risks Assumed Through Contracts and Treaties are priorities. Mr. Reid offered that from the preparer perspective a high priority is Government Corporations and Government Sponsored Enterprises and Other Federal Entities Following FASB GAAP.

Ms. Cohen commented that Social Insurance, Performance Reporting, and Concepts are her high priority projects. She also identified through board discussions that Contingencies/Risks Assumed Through Contracts and Treaties and Risk Assumed—Insurance Programs are other important projects for consideration.

Mr. Farrell noted that although he had not ranked the concepts area as a high priority, after listening to the discussion he does agree that it is very important. When ranking the projects he identified projects that would help move the government forward with better responsibility, management, and improved efficiency. Based on this, he viewed Social Insurance, Performance Reporting, Cost Accounting, and Improper or Erroneous Payments as top projects.

Mr. Anania commented that he would save his final determination until the Board discussion in February. He did note that a lot of what the Board does have to do with the objectives and how the Board weights them. Mr. Anania also agrees with Mr. Kull in the fact that we need to help the constituents. He believes that it is important that people know that the Board does hear the issues brought forward and is trying to solve them. Mr. Anania commented that there needs to be a balance between concepts and real issues, basically he would like to see a track of working on concepts, Social Insurance, and issues that would help constituents.

Chairman Mosso identified Social Insurance, Performance Reporting, and Cost Accounting as high priority projects. He also commented that it may be possible to address a couple of the issues within the Cost Accounting project to strengthen our existing standard. Mr. Kull commented that the Board needs to prioritize—the focus should be on accounting for things first. He added that there are many issues that need to be addressed before we can get to cost accounting. He added that many agencies are struggling with cost issues as well as connecting it to the budget.

Chairman Mosso indicated that working on the concepts in conjunction with addressing projects on the list is the Board's best approach. He suggested that the Board could assist staff by



exchanging thoughts on how to address the conceptual issues with the projects. Staff will also come up with some possible approaches and the agenda priorities will be discussed further at the February meeting.

### **Adjournment**

The meeting adjourned at 12:00 PM.

